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SUBJECT: INTERNATIONAL AIR TRAVEL TO KAZAKHSTAN: A CHOICE  
BETWEEN ALMATY AND ASTANA

REFTEL: A) `04 ALMATY 5035; B) ALMATY 3902

**¶11. (SBU)** Summary: There may be some clear skies ahead following the recent turbulent environment facing international carriers serving Kazakhstan. For all intents and purposes, the GOK has abandoned its previous demand that all international air flights that now land in Almaty, instead, arrive in the new capital of Astana. This would have resulted in all passengers to Almaty being forced to take connecting flights from Astana on the national carrier, Air Astana, which holds a virtual monopoly on domestic air service. Rising opposition, not only from the diplomatic and international business communities, but also from local business and political leaders played an important role in weakening the GOK's resolve to carry through on this plan (Ref A.) End Summary.

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GOK Backs Off From its "All Flights to Astana" Demand  
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**¶12. (SBU)** Kazakhstan's Ministry of Transportation remains at the center of the highly charged negotiations over the transfer of international flights to Astana. However, the GOK has backtracked from its demand to shift all flights to Astana by the end of September 2005, although it has succeeded in convincing Turkish Airways, while retaining most of its Almaty flights, to open twice-weekly routes to Astana. Such Astana flights began in October. Following the unveiling of its proposal to force all international carriers to serve only Astana, the GOK faced unprecedented criticism from both the international and domestic business communities.

**¶13. (SBU)** Moreover, unusual, public dissent from a number of political leaders, including criticism by well-connected Almaty Mayor Imangali Tasmagambetov, seems to have prompted the GOK to shelve this plan, at least for now. Nonetheless, tense negotiations between various European and Kazakhstani delegations continue, as European carriers attempt to iron-out long term marketing plans for the region. As the GOK looks toward the near term future it has apparently decided that a pull back from its tough "Astana landing-take it or leave" position was in its best interest. For the time being at least, international service into Kazakhstan will remain centered in Almaty.

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We Will Build a New Airport and They Will Come  
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**¶14. (SBU)** Dramatic efforts have gone into Astana's airport, as part of the GOK's plan for its new national capital. A \$300 million upgrade, financed by the Japanese Bank for International Cooperation, was used by the GOK to open a new international terminal in Astana in December 2004. Other improvements to the airport complex include runway surface and lighting to conform to ICAO standards for all-weather operation. The new, 22,000 square-meter, terminal is designed to handle a flow of 750-800 passengers per hour during peak periods and a total of 3 million passengers per year.

**¶15. (SBU)** These extensive improvements were intended to prepare Astana airport to be the single port of entry for international flights to and from Kazakhstan. Yet almost from its grand opening, Astana's airport has been plagued with continuing problems, and these long-touted projects soon fell behind schedule. This and the inability of national carrier Air Astana to finance the acquisition of additional planes have helped put this plan on hold. On November 17, ComOff met with Robert Young, the new manager of Astana's airport, to receive his views on issues facing this facility and to learn of upcoming developments. As Young reported, his mandate is to turn a profit on this airport, which had just received hundreds of millions of dollars in upgrades. Young underscored that his mission was predicated on the forcing of international flights into Astana, the expected increase in Air Astana connecting flights serving these captive passengers, and the hoped for

growth in spending by these passengers transiting this airport. However, as Young emphasized, the likelihood of

this scenario being played out anytime soon appears to be dim.

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Air Astana's Expansion Plans Meet with Strong "Headwinds"  
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¶16. (U) Many doubted that Air Astana would have been able to serve the captive market that would have been created had all international flights been transferred to Astana. Last October, then Air Astana President, Lloyd Paxton, announced, at a meeting chaired by Kazakhstani Prime Minister Daniyal Akhmetov, the airline's plans to obtain seven additional Boeing 757s, virtually doubling the size of his airline overnight. Paxton also promised that Air Astana would increase the number of flights between Astana and Almaty to up to eight per day. However, due a shortage of available planes for leasing, Air Astana has had problems acquiring additional aircraft, and these ambitious expansion plans have been put on hold.

¶17. (SBU) Lloyd Paxton also had a vision of turning Astana into a global air and financial hub, a Dubai on the steppes of Central Asia, and obtaining Boeing's new, long range 787s was to be the cornerstone of this dream. Paxton's plan was for Astana to become a central air hub, served by B787s flying in from around the world. While in Astana, these visitors would spend time shopping, and partaking of Astana's attractions. It appears that BAE management apparently has a different vision, and Paxton has recently departed from his position with Air Astana in Kazakhstan.

¶18. (SBU) During a September 29th meeting between the ComOff and Air Astana's VP for Commercial, Ibrahim Canliel, Air Astana described its long term expansion plans, which are predicated on leasing additional Boeing 757s and 737s to augment its existing fleet. Canliel outlined less ambitious plans to increase air service between the oilfield cities of Western Kazakhstan and Europe as well as adding an additional flight to Turkey. These proposals make economic sense and would most likely be profitable routes for the company. When specifically asked by the ComOff whether his company was considering leasing Airbuses, Canliel didn't categorically rule that out, although he insisted his preference was to continue with Boeings, which constitute the bulk of Air Astana's fleet. A final decision on the number and type of aircraft to be added is expected by the end of the year.

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Turbulent Air Talks Continue  
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¶19. (SBU) Important Star Alliance partner, Lufthansa, remains frustrated by the tough operating environment it faces in Kazakhstan. In late July, the GOK met with a German delegation, but reached no agreement that would lead to additional Lufthansa flights in Astana. In an early October meeting with ComOff, Lufthansa Kazakhstan Country Manager Dirk Grossman reported on contentious negotiations between Germany and Kazakhstan. Grossman added that Lufthansa offered two weekly flights to Astana beginning in the autumn of 2005. But, it also has requested a return to daily (i.e., seven weekly) flights that Lufthansa once had between Frankfurt and Kazakhstan. On this request, the GOK has refused to budge, instead demanding an Air-Astana-Lufthansa code-sharing arrangement, and starting in the summer of 2006, a 50-50 formula calling for every flight to Almaty to be matched by an Astana flight.

¶10. (SBU) The Germans have categorically rejected these demands, believing the last condition (the 50-50 rule) would call into question the continued economic viability of air service to Kazakhstan. More is at issue in Germany's case, as Air Astana competes with Lufthansa on routes to Germany; and some small charter companies from both countries operate flights to and from Germany in the summer months.

¶11. (SBU) Tense negotiations between various European and Kazakhstani delegations continue, as European carriers attempt to iron-out long term marketing plans for the region, and the final act in this drama has most likely yet

to be played out. The British have interests on both sides of the issue, since British Aerospace Engineering (BAE) is the 49% owner of Air Astana and manages both the airline and the Astana airport. Nonetheless, the British have out in front often leading the European Commission approach to negotiations, which proved particularly challenging for the Kazakhstanis. At the same the possibility of the Dutch cutting a separate deal with the GOK (the Dutch airline,

KLM, has maintenance and flight arrangements with Air Astana) was forestalled since they preserved their cover by acceding to an EC-wide agreement on negotiating stance vis--vis Kazakhstan.

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Yet, Other Airlines May Soon be Adding Flights  
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¶12. (SBU) During the Ambassador's meetings with the Minister of Transport, Askar Mamin (Ref B), the Minister also said that Air France and KLM had expressed interest in providing service to and from Atyrau. In reply the Ambassador underscored the importance of letting market forces play themselves out in determining which flights would best work. At the same time, Air Austria is exploring the possibility of reentering the Kazakhstani market (it pulled out of Kazakhstan in 2000, citing a weak market as the reason). Austria's Vienna-based ambassador to Kazakhstan and the GOK recently announced that Air Austria will offer service to Kazakhstan starting next year. Reportedly Arabian Airlines may also soon be offering service between Astana and the UAE.

¶13. (SBU) Comment. Unexpectedly fierce Kazakhstani public and private sector criticism, buttressed by sustained pressure from the foreign community, seem to have convinced the GOK to step back from the brink of trying to force all international flights to land in Astana. The inability of Air Astana to obtain additional planes to implement this ambitious plan may have sealed the fate of what was an anti-market forces proposal. For all of these reasons, the GOK now seems to have adopted a far more flexible position on this issue. End Comment.

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